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No guarantee for success of coordination

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native would produce essentially different results. According to the economists, the integration process should begin with a common agreement on economic aims. Bearing in mind that the aims realised by individual member-states in the past presumably correspond to what each was capable of achieving, it is fair to say that any agreement on a set of objectives would be a compromise between the diverging aims hitherto pursued by member-states individually. For a considerably larger measure of inflation would be unacceptable to the stable countries, whereas the others could not be expected to agree to a considerably greater degree of stability.

Revision of Objectives Essential

Looked at from this angle, the quarrel between monetarists and economists is therefore pointless. In so far as countries with hitherto diverging economic aims are earnest in their desire to pursue henceforth an inte-

grated economic policy, they will have to revise their previous objectives. Whether this revision in the sense of mutual adjustments occurs automatically or as a result of negotiation, is of secondary importance.

Nevertheless, the economists' proposed solution of the problem of coordination may be said to be more realistic. A monetary union presupposes more than the mere fixing of exchange rates. It requires in addition unlimited freedom of movement for capital, freedom for all credit and finance institutions to operate wherever they wish, joint management of monetary reserves and, above all, joint direction and control in the matter of creating money. Evidently, such a monetary community can function without running into crises only, if economic developments in the participating countries proceed along roughly parallel lines and at more or less the same pace. Such parallel development could be achieved through the influence of def-

initely fixed exchange rates, provided the EEC-states refrain from taking measures liable to upset the free movement of trade and capital. To be sure, the level at which the mutual adjustments take place might have to be left to chance, whereas the solution proposed by the economists allows more scope for actively influencing the final outcome. The unavoidable revision of national aims could be undertaken in stages, thus lessening the political conflicts that any change of course is bound to cause.

It seems evident that the idea of controlled and gradual adjustment of aims is gaining ground within the Community. The political pre-condition for this process of mutual adjustments is that national steering controls and the influence national policies exercise on one another are still strong enough to achieve these objectives. But these are problems that confront any policy that sets itself quantified aims.

No Guarantee for Success of Coordination

by Dr Hans-Eckart Scharrer, Hamburg *

On the January 1, 1971, the European Communities entered a new stage of their evolution: on that day, their transformation into an economic and currency union was started. It is an ambitious aim, which confronts member states with new problems and tasks. Further dismantling of fiscal and administrative obstacles in the path of free movements of goods, services, and capital will greatly enhance the interdependence between the individual national economies, which has

already been very close, and conspicuously so, in the past. A probable effect of this will be uncontrolled—and usually undesirable—economic development within the integrated area, unless governments unreservedly use all the instruments of their economic policies for serving jointly-agreed aims and priorities.

Harmonisation of Aims

The beginning of a concerted economic strategy will be determined by fixing quantified data for medium-term orienta-

tion about the desired evolution of certain overall figures for the Community. Working out such data is an indispensable, though not sufficient, premise for effective coordination of measures influencing the economic process. The Third EEC Programme on Medium-Term Economic Policy for the Period 1971–75, passed by the Council of Ministers on February 9, 1971, marks some progress against its predecessors, because it contains for the first time an attempt to place national quantified target data, which were worked out in isolation, opposite a joint target

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projection containing compatible national planning data. Such joint data for orientation, intended to guarantee a well-balanced development of both the individual member states and of the Community as a whole, are to be adopted for national economic planning.

Examining these target figures, however, though confirming their compatibility, immediately reveals that they are utopian. Especially unrealistic are the estimated rates of price increases: thus, for example, it was assumed that the price index of the GNP would rise in 1971–75 by an annual average of only 2.0–2.5 p.c. in the Federal Republic of Germany, whilst the actual increase in the decade 1960–70 had averaged 3.4 p.c. p.a.; in France, the corresponding rate was estimated at 2.5–3.0 p.c. p.a., against an actual average in 1960–70 of 4.3 p.c., and for the Netherlands at 2.8–3.3 p.c., against an actual annual rise of 4.8 p.c.

The utopian character of these plan projections comes out not only when measured by their discrepancy from past experience. The Council's estimates are, in some cases, so much lower than the national target figures, which were worked out in isolation, that a voluntary revision of national planning data in favour of those of the Community appears unlikely. At least in countries that have an unfavourable Phillips Curve¹, e.g. France and Italy, dampening down the rate of inflation would only be possible for the price of considerable reductions in employment and growth. However, this relationship is not expressed by the projected growth rates published by EEC. It appears justified to assume that either the targets for

growth were estimated too high or—what is more likely—the rates of price increases to be striven for have been set too low.

Coordinated Measures

Tying governments down to compatible targets for the middle term, even when these targets are realistic, does not by itself guarantee that national economies will evolve harmoniously. For this purpose, short-term economic policies must also be constantly coordinated.

The formal framework for jointly agreed economic policy measures of both governments and central banks was set up in Brussels on February 9, 1971. The Ministers took

□ a decision about closer coordination of their short-term economic policies. For this purpose, the Council of Ministers will meet three times every year to examine the economic situation of the Community and to fix guidelines for the cyclical and budgetary policies of both member states and the Community as a whole;

□ a decision about closer cooperation between central banks. These banks are asked to coordinate their monetary and credit policies, observing the guidelines issued by the Council of Ministers.

True, also in the past, there has been no dearth of rules and regulations about consultation and cooperation. Cooperation, however, too frequently meant only that Ministers of Economics and/or Finance have used the organs of the Community for giving soliloquies about the economic situation in their own countries. When it comes to the second step, joint action as the consequence of these statements "there is still mostly nil return" (as Professor Schiller, the Federal Minister of Economics and of Finance,

said). That is why in cases of conflict, ultimate solutions have always been sought and found in the direction of the (apparent) national interest. For this reason, it remains to be seen whether the new approach to the same problem can keep its promise.

Consultations and coordination of measures of economic policy are particularly necessary in cases of disharmonious economic developments in member states of the Community, which militate against each other. If it is assumed that at a given moment, for example, country "A" is suffering from "stagflation", whilst country "B" enjoys full employment at (relatively) stable prices, can it be expected that country "A" would start or even force a restrictive policy in order to put the brake on its rising prices (and thereby to lend support to country "B"'s stability policy), though restrictive policies, under given conditions, would lead to socially undesirable increases in unemployment and to losses of economic growth? Or may we, conversely, expect that country "B" (in order to help the economy of "A" to revive) would not only accept the "imported" inflation but also initiate expansive policies of its own?

No doubt, the training for co-operative behaviour in such conflict-ridden situations will be a long drawn-out process, which is still in its infancy in the relationship between membership nations and their governments. For the time being, agreements on consultation and cooperation do not offer more than a chance for early diagnosis and prevention of economic discrepancies.

Income Policy as the Undefended Flank

Given even the strongest good will for cooperation of all the contracting governments and

¹ Phillips Curves depict the quantitative relation between past growth rates and rates of price increases.

central banks, success of co-ordination can never be guaranteed. The undefended and indefensible open flank of all economic policy is the development of incomes which is subject to the sovereign decisions of partners in collective agreements. A growing divergence of unit production costs in individual member states because of negotiating partners disregarding the differences in productivity growth will, in the long term, lead to declines in regional employment in an economically integrated area, because passing on the cost differences via the prices is largely impossible. This will be the case especially when the Community uses a restrictive (harmonised) credit and fiscal policy for maintaining stability. Should entire member states be affected by these difficulties, such a situation could produce social tensions of an intensity that progress made towards economic and currency union might be put at grave risk by the return of individual governments to measures of protectionism—unless the Community stages an expansionist money and credit policy, which would even out the differences in cost and price rises.

During the years 1961-70 unit wage costs in EEC countries showed average annual rises of between 3.7 p.c. in West Germany and 6.5 p.c. in the Netherlands²). There are two methods available for reducing or avoiding unit cost differences: harmonising national income policies, or bringing influence to bear on productivity.

Harmonisation of different national income policies would mean to adapt wage rises in all the member states to the corresponding increases in pro-

ductivity, that is, either to keep them within the limit of such increases, or to keep their rise above these rates everywhere at approximately the same marginal level. For the time being, it appears impossible to cause partners in wage negotiations to keep to such a pattern.

Trade unions behave traditionally in different ways, from country to country, which favours wide differences in the development of nominal wages, and even when the European economic and currency union will gradually become real, their behaviour will not automatically become the same. Incidentally, if it came to such identification of behaviour all over the Common Market area, this also could be risky, as it might tend to trade unions trying to enforce the same wage level everywhere in the area of economic integration, no matter whether productivity is different in different parts of it.

The second method of harmonising cost developments seeks to influence productivity. Output per employee in the EEC area has grown, from 1958 to 1969, by an annual average of 5.2 p.c., whilst national averages moved between 3.7 p.c. in the case of Belgium and 6.1 p.c. in that of Italy³. The aim of this policy, which is the responsibility of governments, must lie in gradually smoothing out regional and sectoral differences in productivity, over the long term, in order to set the member states economically on parallel routes. This aim is served by structural policy, which uses public funds of individual states and of the Community for planned support of economic branches that are structurally weak. Help may take the form of government investments in the infrastructure or

of creating financial attractions for growth industries to settle in a certain area. The Third Programme on Medium-Term Economic Policy contains long passages devoted to this complex of problems. During the Brussels meeting of the Council, however, the Ministers were only able to decide on the formula that "the Council, at the Commission's suggestion, (will) decide about the required measures for taking the first step...; the Council will for this purpose endow the Community with the required funds, within the framework of existing treaties." Within the framework of an intra-European financial equalisation programme, these funds will have to be raised mainly by those countries which plead for a strong stabilising economic policy of the Community.

Conclusions

At the beginning of the road leading to an economic and currency union, there are more problems than convincing answers to them to be found. The proclamation of heads of state and of government chiefs, the declaration of the Council of Ministers and the Council's decisions on individual questions are generally so vague and indeterminate that the question becomes inevitable whether member governments are genuinely willing and prepared to travel along this road without reservations. Their conspicuous inclination to evade uncomfortable questions of detail and to postpone their solution to a later (nobody knows whether more favourable) date also leads to doubts about their determination to put their well-sounding promises into practice. When an interim report can be drawn up in 1973, the date for the first stage of the coming economic union to be completed, it will be possible to judge the justice of the doubts in the good will of the governments.

² Bandbreitenverengung bei Stufenflexibilität — ein Schritt zur EWG-Währungsunion? (Narrower Floating Limits but Flexible Floating Stages — a Step towards Currency Union in the EEC), in DIW Wochenbericht, No. 47, 1970, p. 338.

³ R. L. Major and S. Hays, Another Look at the Common Market, in "National Institute Economic Review, No. 4, 1970, p. 40.